



# WEEKLY ECONOMIC DIGEST

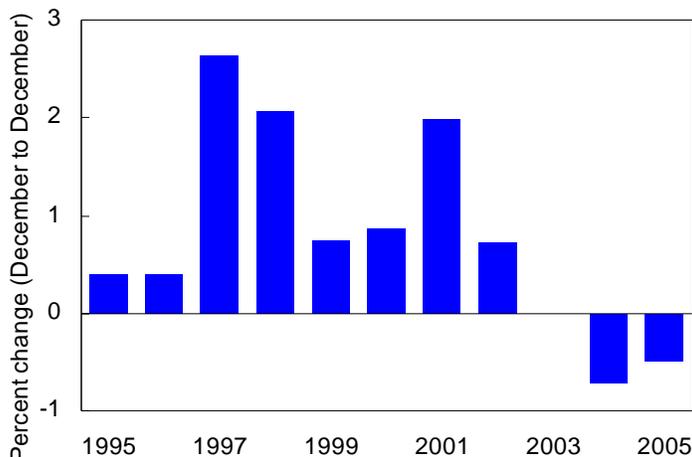


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

January 25, 2006

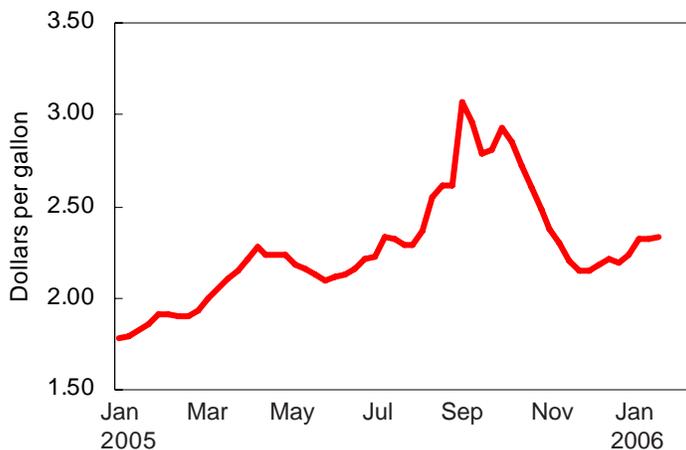
## Consumer Prices Fall Slightly in December but End Year up More Than Wages

Real Average Hourly Earnings  
Production or Nonsupervisory Workers on Private  
Nonfarm Payrolls



Source: Bureau of Labor Statistics, U.S. Department of Labor.

Retail Gasoline Prices, Regular Unleaded  
Nationwide average of Monday prices



Source: The Wall Street Journal.

- **A dip in energy prices led to a decline in consumer prices last month.** The consumer price index (CPI) fell by 0.1 percent in December, reflecting a 2.2 percent decrease in energy prices. (On a weekly basis, energy prices were generally falling in November and rising in December, but the average level of prices was lower in December than it was in November.) Analysts expected the CPI to rise by 0.2 percent. The core CPI (which excludes the volatile food and energy price components) rose by 0.2 percent last month, matching its November increase.
- **Inflation exceeded wage growth in 2005.** Although core inflation rose only 2.2 percent in the 12 months ending in December 2005, the overall CPI rose 3.4 percent. That increase produced a 0.5 percent decline in the real (inflation-adjusted) average hourly earnings of production and other nonsupervisory workers over the year (see top chart).
- **Oil prices have surged.** The spot price of West Texas Intermediate crude petroleum averaged \$66.82 per barrel last week, up more than \$3 from a week earlier, as markets reacted to perceptions of heightened geopolitical risks. Oil prices have been on a rising trend since mid-November, reflecting low levels of spare production capacity worldwide. Gasoline prices have followed the upward trend, with the retail price of regular gasoline averaging \$2.34 nationwide on Monday (see bottom chart).
- **Housing starts dropped sharply in December.** The number of new privately owned housing units started dropped by nearly 9 percent last month to 1.9 million units (annual rate), the lowest level since last March. Analysts attribute last month's drop to unseasonably cold temperatures throughout much of the country and some slowing in recent home sales. For the year, 2.1 million units were started – the largest number since 1972.

The Economy at a Glance	Dec	Nov	Oct	Sep	2005 Qtr 4	2005 Qtr 3	2005 Qtr 2	2005 Qtr 1	2005	2004
<b>Economic Activity</b>										
Real GDP (% growth)*	—	—	—	—	n.a.	4.1	3.3	3.8	n.a.	4.2
Industrial Production (% growth)	7.4	10.0	12.7	-14.5	3.8	1.4	1.6	3.8	3.2	4.1
Capacity Utilization (level, %)	80.7	80.3	79.8	79.1	80.2	79.8	79.9	79.9	80.0	78.6
Civilian Unemployment Rate (level, %)	4.9	5.0	4.9	5.1	5.0	5.0	5.1	5.2	5.1	5.5
Housing Starts (thousands)	1933	2121	2051	2160	2035	2101	2044	2083	2066	1950
Real Disposable Personal Income (% growth)*	n.a.	8.8	3.9	32.9	n.a.	-2.0	0.2	1.0 <sup>#</sup>	n.a.	3.1 <sup>#</sup>
Retail Sales (% growth)	8.6	10.1	2.6	3.7	2.3	6.9	10.8	5.6	7.6	7.3
Personal Saving Rate (level, %)*	n.a.	-0.2	-0.2	-0.5	n.a.	-1.8	-0.2	0.5	n.a.	1.5 <sup>#</sup>
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	-1.2	-7.0	2.4	15.4	3.2	5.1	4.2	2.4	3.4	2.7
Core CPI-U Inflation (% growth)	2.4	2.4	2.4	1.2	2.3	1.5	2.0	2.6	2.2	1.8
Employment Cost Index (% growth)	—	—	—	—	n.a.	3.2	2.8	2.8	n.a.	3.9
Output per Hour (% growth)	—	—	—	—	n.a.	4.7	2.1	3.2	n.a.	3.4
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	3.89	3.88	3.71	3.42	3.83	3.36	2.86	2.54	3.15	1.37
T-note Rate, 10-years (level, %)	4.47	4.54	4.46	4.20	4.49	4.21	4.16	4.30	4.29	4.27
Federal Funds Rate (level, %)	4.16	4.00	3.78	3.62	3.98	3.46	2.94	2.47	3.22	1.35
Dow Jones Industrial Avg (index level)	10828	10695	10324	10533	10616	10544	10382	10648	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

\* Subject to revision over the next week.

# Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

### Upcoming Economic Releases:

- **Advance Report on Durable Goods Manufacturers' Shipments, Inventories, and Orders: December 2005** [Release: Thursday, January 26]
- **Gross Domestic Product: Fourth Quarter 2005 (Advance)** [Release: Friday, January 27]
- **New Residential Sales: December 2005** [Release: Friday, January 27]
- **Personal Income and Outlays: December 2005** [Release: Monday, January 30]
- **Employment Cost Index: December 2005** [Release: Tuesday, January 31]